



OFFICE OF THE COMPTROLLER  
CITY OF ST. LOUIS



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**DARLENE GREEN**  
Comptroller

*Internal Audit Section*

**DR. KENNETH M. STONE, CPA**  
Internal Audit Executive

1520 Market St., Suite 3005  
St. Louis, Missouri 63103-2630  
(314) 657-3490  
Fax: (314) 552-7670

November 17, 2011

Rodney Crim, Executive Director  
St. Louis Development Corporation  
1015 Locust St.  
St. Louis, Mo 63101

RE: Community Development Block Grant (CDBG) (Project #2011-CDA18)

Dear Mr. Crim:

Enclosed is a report of the fiscal monitoring review of the St. Louis Development Corporation, a not-for-profit organization, CDBG Programs for the period January 1, 2009 through December 30, 2010. The scope of a fiscal monitoring review is less than an audit, and as such, we do not express an opinion on the financial operations of the Agency. Fieldwork was completed on May 24, 2011.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and through an agreement with the Community Development Administration (CDA) to provide fiscal monitoring to all grant subrecipients.

If you have any questions, please contact the Internal Audit Section at 314-657-3490.

Sincerely,

Dr. Kenneth M. Stone, CPA  
Internal Audit Executive

Enclosure

cc: Jill Claybour, Acting Executive Director, CDA  
Lorna Alexander, Special Assistant for Development, CDA



# CITY OF ST. LOUIS

**COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)  
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)**

**ST. LOUIS DEVELOPMENT CORPORATION  
CONTRACTS: #CDBGR-5, #10-50-03, #10-50-06, #10-33-55,  
#10-32-02, #10-70-35, #10-90-90, #09-NSP-33-55  
CFDA #14.218 AND #14.253**

**FISCAL MONITORING REVIEW**

**JANUARY 1, 2009 THROUGH DECEMBER 31, 2010**

**PROJECT #2011-CDA18**

**DATE ISSUED: NOVEMBER 14, 2011**

**Prepared By:  
The Internal Audit Section**



## OFFICE OF THE COMPTROLLER

**HONORABLE DARLENE GREEN, COMPTROLLER**

**CITY OF ST. LOUIS  
COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)  
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)  
ST. LOUIS DEVELOPMENT CORPORATION  
FISCAL MONITORING REVIEW  
JANUARY 1, 2009 THROUGH DECEMBER 31, 2010**

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## INTRODUCTION

### Background

**Contract Name:** St. Louis Development Corporation

**Contract Numbers:** CDBGR-5  
10-50-03  
10-50-06  
10-33-55  
10-32-02  
10-70-35  
10-90-90  
09-NSP-33-55

**CFDA Numbers:** 14.253 (CDBGR-5)  
14.218 (10-50-03, 10-50-06, 10-33-55, 10-32-02)

**Contract Period:** January 1, 2010 through September 30, 2012 (CDBGR-5)

**Contract Periods:** January 1, 2010 through December 31, 2010 (10-50-03, 10-50-06, 10-33-55, 10-32-02, 10-70-35, 10-90-90 and 09-NSP-33-55)

**Contract Amounts:** \$200,000 (CDBGR-5)  
\$1,750,000 (10-50-03)  
\$850,000 (10-50-06)  
\$76,290 (10-33-55)  
\$395,000 (10-32-02)  
\$700,000 (10-70-35)  
\$530,000 (10-90-90)  
\$2,500,000 (09-NSP-33-55)

These contracts provided Community Development Block Grant (CDBG) funds to St. Louis Development Corporation (Agency) to undertake activities that assisted in economic development within the City of St. Louis. These activities included but were not limited to business loan packaging, economic development financing, real estate development, minority business development, business assistance, and public improvements.

### Purpose

The purpose of this fiscal monitoring review was to determine the Agency's compliance with federal, state, and local Community Development Administration (CDA) requirements for the period January 1, 2009 through December 31, 2010 and make recommendations for improvements as considered necessary.

## **Scope and Methodology**

Inquiries were made regarding the Agency's internal controls relating to the grant administered by CDA. Evidence was tested supporting the reports the Agency submitted to CDA and other procedures were performed as considered necessary. Fieldwork was completed on May 24, 2011.

## **Exit Conference**

An exit conference was conducted at the Agency on October 18, 2011. The Agency was represented at the exit conference by: The Executive Director; The Controller; The Accounting Manager; The Director of Human Resources. The Internal Audit Section (IAS) was represented at the exit conference by an Auditor II and the Auditor-In-Charge.

## **Management's Response**

Management's responses to the observations and recommendations noted in the report were received on November 3, 2011, and have been incorporated into the report.

## **SUMMARY OF OBSERVATIONS**

### **Conclusion**

The Agency did not fully comply with federal, state, and local CDA requirements.

### **Status of Prior Observations**

The Agency's previous fiscal monitoring report, Project #2010-CDA32, issued November 19, 2010, contained no observations.

### **A-133 Status**

The Agency expended \$500,000 or more in federal funds in its fiscal year ended June 30, 2010; therefore, it was required to have a single audit in accordance with OMB Circular A-133.

The report was dated November 24, 2010 and rendered unqualified opinions on the general purpose financial statements and regarding compliance with the major federal awards. There were no major weaknesses or significant deficiencies identified in the audit of the general purpose financial statements and major federal awards. The A-133 report contained two reportable conditions, one of which is included in this report as observation #2. The other condition was resolved.

The Agency did not qualify as a low-risk auditee.

### **Summary of Current Observations**

Recommendations were made for the following observations, which if implemented could assist the Agency in fully complying with federal, state, and local CDA requirements.

1. Opportunity to ensure compliance with terms and conditions of contract agreement (questioned costs \$43,095)
2. Opportunity to improve internal controls over cash retention

## **DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES**

### **1. Opportunity To Ensure Compliance With Terms And Conditions Of Contract Agreement (Questioned Costs \$43,095)**

The Agency did not receive express permission from CDA to fund the Agency's Salary Continuation Program using CDBG funds. Nine employees were paid with CDBG funds from January 2009 through December 2010 under Salary Continuation Program resulting in \$43,095 in questioned cost. All reimbursement requests must be in accordance with approved work-program personnel schedules of the contract. If reimbursement requests do not conform to an approved request, then a written request for approval of a revised personnel schedule must be submitted to CDA as part of a contract revision request.

According to the Agency's personnel manual, the Agency's Salary Continuation Program provides for a continuation of salary to all full-time, permanent salaried employees during absences due to injury, sickness, or illness related to pregnancy or disease after they have exhausted accrued vacation and sick leave balances. The amount of the benefit is dependent on time of service. For example:

- If the employee has more than six months but less than two years of service, the employee would receive the equivalent of one month of base salary.
- If the employee has more than two years of service, the employee would receive the equivalent of two months of base salary. The employee would be eligible for 2/3 of base salary up to an additional 3 months.

Contract #10-90-90 Section 5 states, "CDA or the operating agency may from time to time request changes in the work program and/or budget attached to this agreement. Such changes which are mutually agreed upon by and between CDA and the operating agency shall be incorporated as written amendments to this agreement."

The Handbook for CDBG Subrecipients on Administrative Systems, section 2.4 Allowable Costs states, "According to basic guidelines contained within these OMB circulars, a cost is allowable under the CDBG program if the expenditure has been authorized by the grantee generally through approval of the budget for the activity."

Contract #10-90-90 Page B-3 Sanction section states, "Failure by the operating agency to comply with all of the terms and conditions of the work program and budget may result in sanctions being imposed upon the operating agency." The sanctions may include:

- Withholding of contract award
- Suspension of contract

- Disqualification of the operating agency from eligibility to receive future CDBG funds until the operating agency has remedied any such breach of contract.

### **Recommendation**

It is recommended that the Agency reimburse CDA \$43,095 for the Salary Continuation Program payments that were not authorized in the CDBG contract agreement.

### ***Management's Response***

*The SLDC Salary Continuation Policy is included in the SLDC Personnel Policy Handbook (PPH) which is provided annually to CDA for each work program containing personnel expenses. In January of 2009, SLDC made changes to its sick leave policy as detailed in our PPH but left the Salary Continuation Policy unchanged. SLDC operated under the premise that the Salary Continuation Policy was acceptable to CDA as an allowable CDBG cost because there were no objections by CDA to the policy.*

*In July 2011, SLDC eliminated the Salary Continuation Policy and obtained a third party insurer to pay for salaries after 5 consecutive sick days (Short Term Disability) and prior to the start of Long Term Disability. The premium for the Short Term Disability insurance will be paid from non CDBG sources.*

*We believe this procedural change to eliminate the Salary Continuation Policy and fund a Short Term Disability program with non CDBG funds will avoid this issue in the future. It is our hope that CDA will consider these changes adequate to resolve this finding.*



## 2. Opportunity To Improve Internal Controls Over Cash Retention

The Agency failed to comply with cash management requirement and return excess cash draw down, to the Comptroller's Office, within three working days. The Agency received CDBG (federal) funds totaling \$82,631.52. The purpose of these funds was to acquire properties to be developed in accordance with the City of St. Louis Neighborhood Development Strategy or overall development strategy. The Agency wrote four checks and disbursed the checks on the following dates:

Reimbursement Date	Check Date	Days Late	Amount
June 17, 2010	June 28, 2010	11	\$14,365.39
August 12, 2009	September 2, 2009	21	\$38,736.17
August 12, 2009	November 4, 2009	84	\$18,461.70
August 12, 2009	September 17, 2009	36	\$11,068.26
<b>Total</b>		<b>152</b>	<b>\$82,631.52</b>

Section 2.10 of the CDA Operating Procedures Manual requires an operating agency to disburse the federal funds within three working days of receiving the funds. If the funds cannot be disbursed within the three day period, the funds must be returned immediately to the Comptroller's Office.

The funds were used to purchase property where the closing dates changed. This change of the closing date delayed the disbursements of the funds.

Failure to comply with CDA's cash management policy may increase the Agency's risk for misappropriation of funds and result in suspension or termination of the federal award.

### Recommendation

It is recommended that the Agency comply with the CDA cash management policy for disbursing federal funds within three working days of receiving the funds.

### Management's Response

*In June 2009, CDA, through Work Program 09-33-55NSP with the St. Louis Land Reutilization Authority (LRA) authorized the acquisitions of foreclosed properties primarily from financial institutions which obtained title through foreclosures. Banks were aggressively liquidating these properties from their holdings and were selling at discounted prices.*

*There was active competition for these properties, and LRA was required in many circumstances to front down payments and full sales prices prior to receiving the draw request. This caused cash flow problems for LRA.*

*In September 2009, LRA requested that it be able to draw funds based on signed sales contracts. Permission was given by CDA to LRA to do this for the duration of this work program only. At times there were delays between the sales contract date and the actual closing date because of title issues. In these instances, LRA held the funds for longer than the three (3) day requirement. CDA was aware of this procedure, but rationalized that it was the only mechanism which would enable the program to function.*

*The acquisition portion of the program has now ended. All future acquisition requests will be based on signed closing statements and not sales contracts. Any funds held longer than the 3 days will be returned to the Comptroller and re-requested at the proper time.*